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# Cambridge, Massachusetts; General Obligation

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# Cambridge, Massachusetts; General Obligation

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|---|---|---|
| US$65.26 mil GO bnds ser 2013 dtd 02/19/2013 due 02/15/2033 | | |
| *Long Term Rating* | AAA/Stable | New |
| Cambridge GO | | |
| *Long Term Rating* | AAA/Stable | Affirmed |

## Rationale

Standard & Poor's Ratings Services has assigned its 'AAA' long-term rating to Cambridge, Mass.' series 2013 general obligation (GO) bonds and affirmed its 'AAA' long-term rating on the city's parity GO debt. The outlook is stable.

The ratings reflect our opinion of the city's:

- Strong and dynamic local economy, anchored by Harvard University and Massachusetts Institute of Technology (MIT), as well as biotechnology and high-tech firms;
- Above-average wealth and income factors, including an extremely strong market value per capita;
- Very strong financial position, despite general fund decreases in fiscals 2010 and 2011, coupled with an experienced management team and strong management policies; and
- Low debt burden and manageable capital plan.

The city's full faith and credit pledge secures the bonds. Officials will use bond proceeds for various capital projects.

Cambridge, with a stable population of about 108,000, is across the Charles River from Boston. Anchored by Harvard University and MIT, the local economy is strong and concentrated in high-tech, biotechnology, engineering, medicine, education, and consulting. In our view, income levels are strong: Median household effective buying income is 114% of the national level while per capita effective buying income is higher, at 142% of the national level. In our opinion, the city's economy has remained sound--the 2012 average unemployment rate through November (not seasonally adjusted) was 3.8%, significantly lower than the 6.1% state rate and 7.4% national rate over the same period. Employment at Harvard and MIT and at various technology and biotech firms spurs the city's strong economy.

After a slight 0.5% decrease for fiscal 2011, the city's assessed valuation (AV) increased by 3.1% from fiscal 2012 to fiscal 2013 to $25.2 billion, equal to more than $220,000 per capita, which we consider extremely strong. Although the tax base is moderately concentrated, with the 10 largest taxpayers accounting for 20% of AV and 32% of the levy, the concentration is due in large part to taxable property owned by MIT, which accounts for 12% of the levy, and we consider MIT to be a very stable taxpayer. The difference between the proportional share of AV and the tax levy is due to the city's dual tax rate. In addition to property taxes on taxable, non-education properties, the two universities also make payments in lieu of taxes (PILOTs) on their tax-exempt properties. The major components of AV are residential (61.7%) and commercial (21.4%).

Cambridge's fund balance remains very strong in our view, despite general fund decreases in fiscals 2009-2011. The total and available general fund balances both increased in fiscal 2012 due to a combination of both revenue and expenditure surpluses. A $27.0 million increase in the available general fund balance brought it to $126.7 million or 28.7% of operating expenditures. The total fund balance was $163.2 million or 37% of expenditures. General fund liquidity, in our opinion, remains strong and increased in fiscal 2012, with cash of $192.2 million covering current liabilities by nearly 6.0x. In addition to the general fund balance, the city had an additional $15.2 million committed reserve in its parking fund (an increase of $1.0 million from fiscal 2011), which provides additional financial flexibility.

The city continues to have the largest amount of unused Proposition 2 1/2 tax levy capacity in the commonwealth, $104.1 million for fiscal 2013, which is also the largest amount the city has had since the levy limits were enacted. The excess levy capacity allows city officials to increase the levy by that amount without the need for electorate-approved exemptions or overrides. Cambridge's long-term forecast projects this excess levy capacity will increase in each year through the last year of the projection, fiscal 2017. Property taxes are the city's leading revenue source, accounting for about 65% of general fund revenues and transfers in, and collections have been strong, in our view, with current collections averaging about 98% over the past five fiscal years. Intergovernmental revenue accounts for less than 10% of general fund revenue and transfers in, making the city less vulnerable to state aid reductions than most other municipalities in the commonwealth.

Standard & Poor's considers Cambridge's financial management practices "strong" under its Financial Management Assessment methodology, indicating practices are strong, well embedded, and likely sustainable. The current city manager is retiring at the end of fiscal 2013, but the current deputy city manager has already been selected for the role.

Including this issue, and net of self-supporting water and sewer debt, the city's debt burden is low, in our view, as a share of market value, at 1.1%, and moderate on a per capita basis, at $2,640. Cambridge's carrying charges have grown gradually in recent years, but stabilized recently at about 10% of governmental expenditures, less capital outlay. We view debt amortization as very rapid, with officials retiring 82% of principal in 10 years and all debt in 20 years.

The city's pension unfunded actuarial accrued liability (UAAL) increased by $83.9 million from Jan. 1, 2010 to Jan. 1, 2012 to $237.8 million, a 77.8% funded level. The UAAL increase was due primarily to a $67.8 million experience loss, primarily due to actuarial investment returns being less than assumptions--which were somewhat offset by salary increases being less than assumptions-- and an $18.3 million increase in the liability due to assumption changes, largely from decreasing the investment return assumption from 8.25% to 8.0%. The fiscal 2012 pension payment of $25.1 million was equal to 5.7% of general fund expenditures; the city has historically made 100% of its pension annual required contribution (ARC) and management plans to continue to do so. The city recently pushed the full pension funding date back to 2029 from 2013, due to investment losses. Officials indicate that once the city fully funds the pension liability, it may dedicate the former pension funding to making payments for the other postemployment benefit (OPEB) liability, but they have not yet made a decision on this funding issue.

As of June 30, 2012, the OPEB unfunded actuarial accrued liability was $611.1 million, about 4% larger than the UAAL from 2010. The city currently funds OPEB primarily on a pay-as-you-go basis, with a fiscal 2012 contribution of $22.5 million, equal to about 46% of the ARC and 5.1% of general fund expenditures. The city established an OPEB trust fund in December 2009 and made a $1.0 million contribution in fiscal 2013, and officials expect a $2.0 million contribution for fiscal 2014.

## Outlook

The stable outlook reflects Cambridge's very strong financial position, experienced management team, and strong financial management policies and practices. We do not expect to change the rating within the two-year outlook period as we expect the city's strong and resilient local economy and property tax base will continue to support provide sound revenue to support the city's financial position.

## Economy: Strong And Diverse With Multiple Large Employers

The city remains an employment center: In 2011, the city was host to one job for every city resident.

Cambridge is home to a concentrated cluster of world-recognized biotechnology and pharmaceutical firms that are attracted by the concentration of intellectual capital at Harvard, MIT, and the Whitehead Institute, a research and development think tank. Private biotechnology firms account for six of the city's 25 leading employers. The city has 12 employers with more than 1,000 employees, the largest of which are:

- Harvard (11,200 employees),
- MIT (7,800),
- The City of Cambridge (2,900),
- Novartis Institute for Biomedical Research (2,300), and
- Mt. Auburn Hospital (1,700).

In the third quarter of 2012, Cambridge's commercial vacancy rate decreased to 7.1%, which is favorable compared with Boston and area suburbs.

## Finances

The fiscal 2013 budget increased by 2.9% from the prior budget, and the tax levy increased by 6.0%. The budget appropriates $9.0 million of free cash (general fund balance), which was reserved in the fiscal year-end 2012 balance sheet, along with some funds from non-general fund reserves. The city has agreements with eight of its 10 collective bargaining units; the teachers and firefighters contracts are still being negotiated, but management expects the settled contracts will be manageable. Cambridge's five-year financial forecast projects continued free cash appropriations of $8 million to $9 million, along with reductions from various stabilization reserve funds in line with the plans when those funds were established. The city's reserve policy requires at least a 15% general fund balance.

The PILOTs from Harvard and MIT are budgeted at $5.3 million for fiscal 2013. The Harvard PILOT extends through fiscal 2055 and increases by 3% per year while the MIT PILOT extends through 2045 and increases 2.5% annually. The MIT agreement also contains provisions that are designed to lessen the revenue impact to the city if MIT converts any of its currently taxable property to a nontaxable use.

## Cambridge Health Alliance

In 1996, all employees, assets, and liabilities of the former Cambridge Department of Health and Hospitals--with the exception of existing pensions and GO debt liabilities through 2018--were transferred to the Cambridge Public Health Commission, which is also known as the Cambridge Health Alliance. The commission is separate from the city. The alliance runs the Cambridge public health department, and the city has agreed to continue to subsidize the alliance. The current agreement extends through fiscal 2017.

## Debt

Cambridge's public improvement program projects $278.9 million in capital spending from fiscals 2013 through 2017, of which $218.3 million will be funded with bonded debt. Water and sewer projects comprise 61% of the public improvement program and are expected to enjoy the full self-support of the enterprise systems. Following this issuance, the city will have $68.5 million of authorized unissued debt remaining. We expect that the city's additional debt burden should remain moderate.

## Related Criteria And Research

- USPF Criteria: GO Debt, Oct. 12, 2006
- U.S. State And Local Government Credit Conditions Forecast, Jan. 17, 2013

**McGRAW-HILL**

MOODY'S
INVESTORS SERVICE

# New Issue: Moody's assigns Aaa to Cambridge's (MA) $65.26 million GO Bonds; Outlook is stable

Global Credit Research - 11 Feb 2013

**Aaa rating affects $393 million in rated debt outstanding, including current issue**

CAMBRIDGE (CITY OF) MA
Cities (including Towns, Villages and Townships)
MA

**Moody's Rating**

| ISSUE | | RATING |
|---|---|---|
| General Obligation Bonds, Municipal Purpose Loan of 2013 | | Aaa |
| **Sale Amount** | $65,260,000 | |
| **Expected Sale Date** | 02/15/13 | |
| **Rating Description** | General Obligation | |

**Moody's Outlook** STA

**Opinion**

NEW YORK, February 11, 2013 --Moody's Investors Service has assigned a Aaa rating to the City of Cambridge's (MA) $65.26 million General Obligation Bonds, Municipal Purpose Loan of 2013. Concurrently, Moody's has affirmed the Aaa rating assigned to the city's $328 million in outstanding long-term general obligation debt. The bonds are secured by the city's general obligation, limited tax pledge as debt service has not been excluded from the levy limitations of Proposition 2 ½. The bonds are being issued to fund the city's fiscal 2013 public investment program, which consists primarily of city and school building projects, roadway improvements, sewer system upgrades, and the purchase of a new fire vehicle.

SUMMARY RATING RATIONALE

The Aaa rating reflects the city's large, diverse and stable tax base, which is anchored by world renowned higher education institutions and a growing research and development sector. Also incorporated into the Aaa rating are a healthy financial position which has remained historically stable, management's consistently conservative approach to budgeting and expenditure management and a favorable debt profile supported by healthy enterprise systems and commonwealth school construction aid. Assignment of the stable outlook incorporates Moody's expectation that the city will maintain superior credit quality given its healthy financial position which is supported by formal policies, as well as its historically stable tax base which continues to see ongoing development.

STRENGTHS:

-- Large and diverse tax base anchored by stable institutions

-- Robust financial position guided by sound management policies

-- Very ample excess levy capacity under Proposition 2 ½

-- Well managed debt profile

CHALLENGES:

-- Significant long-term liabilities for pensions and OPEB

-- High regional costs of living and doing business

DETAILED CREDIT DISCUSSION

ONGOING COMMERCIAL DEVELOPMENT SPURS MODEST TAX BASE GROWTH

Cambridge's economy benefits from the presence of Harvard University (rated Aaa/stable outlook) and the Massachusetts Institute of Technology (MIT, rated Aaa/stable outlook) -- which together enroll 27,940 students and provide employment for almost 19,000 full-time equivalent positions - and the related vibrant biotechnology, pharmaceutical and life sciences employment base. Together these institutions comprise 42% of the jobs provided by the city's top 25 employers while building permits issued to the universities historically represent a significant portion of the city's annual activity. Cambridge's assessed value has remained strong during the economic downturn and lagging recovery, largely due to the ongoing expansion of the city's commercial sector. Following a modest decline of 0.5% in fiscal 2011, assessed values increased by 1.2% in fiscal 2012, and grew another 3.1% in fiscal 2013. Management's projections for future growth indicate modest increases in assessed values over each of the next four fiscal years. New development continues in the city, as evidenced by improving building permit activity. Fiscal 2012 building permit valuations totaled approximately $1.1 billion, resulting in $15.9 million in revenue to the city. This represents a significant increase over 2011 permit valuations of $503.2 million, and is largely a result of several large scale commercial developments primarily located in the Harvard Square and Kendall Square districts.

From 2007 through the fall of 2012, Cambridge has added approximately 898,000 square feet of commercial space, with several additional projects under construction. City officials report that over 6.3 million additional square feet of space, primarily slated for biotechnology research and development, is in various stages of construction, or is already completed, in the city's economic development districts. Absorption of new space has been rapid and office vacancy rates dropped significantly to 7.1% in the third quarter of 2012, down from 9% and 11.6% in the third quarter of 2011 and 2010, respectively. Cambridge's commercial vacancy rate compares favorably to metro Boston, as well as the regional suburban vacancy rates of 10% and 16.8%, respectively. Although demographic indices are somewhat tempered by the high student population, income levels remain above average relative to state and national medians. Incorporating a 3.8% population increase since 2000, the city's equalized value per capita is a robust $253,325 in fiscal 2013, despite the tax exempt status of nearly one-third of the tax base.

HEALTHY FINANCIAL POSITION CHARACTERIZED BY AMPLE RESERVE LEVELS AND PROACTIVE MANAGEMENT

Cambridge is expected to maintain a healthy financial position in the near term, although stabilization funds earmarked for debt service are expected to be depleted over the next several years. The city continues to benefit from ample financial flexibility and robust reserve levels, which position it to absorb an extended period of flat or declining state aid and sluggish local revenue growth. Cambridge's management team maintains formally adopted fiscal policies for its annual budgeting, including long-term projections for revenues, expenditures, and capital needs. Steady revenue streams, generated by its substantial and stable tax base, provide flexibility to address budgetary challenges. Local property taxes comprise the majority of revenues, representing 64.3% of fiscal 2012 general fund revenues. Property tax collections remain strong, at approximately 99% in the current year, and the city's unused levy capacity under Proposition 2 ½ has grown to an all-time high of $102.6 million, providing ample flexibility. Levy capacity is projected continue to grow at least through 2017, indicating management's willingness to maintain the additional revenue raising flexibility provided by this capacity.

Although revenues and expenditures are carefully managed, the city has made moderate appropriations of free cash to support operations, smaller capital needs and to moderate tax rate increases. In addition, Cambridge has made additional appropriations from its city and school stabilization funds to offset debt service costs related to the city's recently-completed library and high school construction projects. The stabilization funds were built to $32 million in fiscal 2008 in anticipation of future debt service costs, with the current balance of the stabilization fund expected to be depleted by 2017.

Despite the depletion of stabilization funds, the city maintains ample reserves in its unassigned general fund and parking fund which are available for unanticipated financial needs. After three consecutive years of modest General Fund balance declines, the city finished fiscal 2012 with $18.1 million operating surplus after transfers. The 2012 surplus was a result of prudent budget management, with the city recognizing favorable revenue and expenditure variances in almost every category. The city's free cash, the most conservative measure of legally available reserves as certified by the commonwealth, improved significantly to a record high of $115.8 million, or a sound 25% of revenues.

The city's fiscal 2013 adopted budget includes formal investment, debt and reserve policies that have guided and maintained the city's financial health. The city is well above its policies requiring total and unassigned general fund balance equal or greater to 25% and 15%, respectively, of the ensuing fiscal year's operating revenue. The fiscal 2013 expenditure budget contains a modest overall 2.87% increase over the adjusted fiscal 2012 budget, driven by ongoing expenditure pressures in several areas including salaries, employee pension and health insurance, as well as an optional $1 million appropriation to the city's Other Post Employment Benefit (OPEB) trust fund. The city's budget was balanced by a 5.97% property tax levy increase as well as a total appropriation of $20.1 million in reserves, which included $9 million in free cash, $0.6 million school stabilization funds, $8.5 million from the health claims trust and $2 million overlay reserves. Despite budgeted draws on reserves and ongoing declines in state revenues, Moody's anticipates that the city will continue its practice of strict budget management, allowing the city to maintain ample reserve and levy capacity levels.

In November 2001 Cambridge voters passed the Community Preservation Act (CPA), imposing a 3% surtax and qualifying the city to receive state matching funds. Through fiscal 2013, $121 million has been appropriated or reserved since adoption. CPA funds are available to fund affordable housing, historic preservation and open space conservation, and notably have enabled the development or preservation of over 3,350 units of housing in the city. The city has budgeted roughly $5.4 million from Payments In Lieu of Taxes (PILOTs) in fiscal 2013, roughly 1.2% of general fund revenues. The majority comes from Harvard University (rated Aaa/stable outlook) and the Massachusetts Institute of Technology (MIT, also rated Aaa/stable outlook). Both institutions own significant taxable real estate and are major taxpayers, which together represent 8.7% of Cambridge's 2013 assessed value and roughly 13.2% of the levy. In fiscal 2005 the city signed a 40-year agreement with MIT and a 50-year agreement with Harvard. Each PILOT includes annual escalators on the initial base payment over the term of the agreement to provide stability and to allow long-range planning for the city. Overall, Moody's expects that Cambridge will remain well-positioned to maintain its sound financial position during an extended period of economic uncertainty and constrained revenue growth.

SIGNIFICANT LIABILITIES FOR PENSION AND OPEB

The city's has updated its actuarial study for Other Post Employment Benefits (OPEB), reflecting values on June 30, 2012 and incorporating the establishment of an OPEB trust as well as adjustments to the city's health care plan. Cambridge's unfunded actuarial accrued liability (UAAL) has increased to $611 million, up slightly from $586 million in 2010. The city budgeted roughly $22.5 million for pay-as-you-go retiree health care expense in fiscal 2012; funding the full annually required contribution (ARC) would require an additional appropriation of up to $22.6 million. An irrevocable OPEB trust was established and initially funded in fiscal 2010 with a $2 million transfer from the city's health claims trust account (leaving roughly $15 million in the trust fund). The city added $1 million in funding above its pay-as-you-go cost in fiscal 2013 and plans to budget $2 million annually from fiscal 2014 through fiscal 2017.

The city's retirement system was nearly fully funded in 2008 (92%) but subsequently experienced significant losses, consistent with similar systems nationwide, reducing funding status to 77.8% as of the most recent actuarial valuation, dated January 1, 2012. The city has lowered its investment return assumption to 8% in fiscal 2012, and is anticipating full funding of the plan by 2029, 11 years short of the state deadline of 2040. The city has budgeted additional payments totaling $2.6 million to the retirement system to offset investment losses and improve funding status. The city budgets 100% of its ARC payment ($32 million in fiscal 2012), which is consistent with its actuarial funding schedule. Pension and OPEB contributions totaled a moderate 12.3% of FY12 expenditures.

AFFORDABLE DEBT BURDEN WITH MANAGEABLE CAPITAL NEEDS

Cambridge's debt obligations will remain affordable given a sizeable level of self-supporting debt and a rapid principal retirement schedule. The city's direct debt burden of 1.1% of equalized value rises to a moderate 1.8% after including overlapping wastewater debt from the Massachusetts Water Resources Authority (MWRA senior lien debt rated Aa1/stable outlook). Self-supporting water and sewer system debt as well as the city's pay-as-you-go funding plan, budgeted at approximately $5 million annually, also contribute to Cambridge's favorable debt ratios. Direct debt is retired at an average pace of 81.2% within 10 years. Despite the significant amount of self-supporting debt, general fund-supported debt service claimed a somewhat elevated 10% of fiscal 2012 expenditures; due to the completion of a number of significant capital projects including a new library and renovation of Cambridge Rindge and Latin High School, debt service expenditures have more than doubled from a more moderate 5.5% of expenditures in fiscal 2002. However, the city remains comfortably below its policy to limit general fund debt service to 12.5% of operating expenditures. City officials plan to issue approximately $225 million in debt over the next four years to fund citywide capital projects under previous authorizations as well as those projects included in its $285 million public investment plan. However, with roughly 44.5% of the debt expected to be supported by user fees Moody's expects Cambridge's debt burden to increase modestly but to remain manageable. Cambridge has no exposure to variable or auction rate debt or swap agreements.

Outlook

The stable outlook reflects Moody's expectation that Cambridge will maintain a healthy financial position, given its strong reserve levels and history of balanced operations. Moody's also expects that the city's will continue to improve funding ratios for pension and OPEB while maintaining a conservative approach to budgeting and expenditure management. Additionally, the stable outlook incorporates the city's status as home to several world renowned institutions, and ongoing development in the commercial sector.

WHAT COULD MOVE THE RATING DOWN:

-- Significant reduction in reserve levels or property tax levy capacity

-- Adoption of less conservative approach to budgeting and financial management

-- Deterioration of tax base or local economy

-- Failure to improve funding status for pension and OPEB

KEY STATISTICS

2011 Population (US Census): 105,162 (+3.8% since 2000)

2010 Per Capita Income: $44,717 (131.7% of MA, 163.6% of US)

2010 Median Family Income: $87,750 (108.1% of MA, 139.3% of US)

Unemployment, October 2012: 4.3% (MA 6.2%, US 7.5%)

2013 Equalized Value: $26.6 billion

2013 Equalized Value per Capita: $253,325

Equalized Value Average Annual Growth 2008-2013: 1.4%

FY12 Total General Fund Balance: $163.2 million (35.2% of General Fund Revenues)

FY12 Unassigned General Fund Balance: $126.7 million (27.4% of General Fund Revenues)

Overall Debt Burden: 1.8%

Amortization of principal (10 years): 81.2%

Post-sale long-term debt outstanding: $394 million

RATING METHODOLOGY

The principal methodology used in this rating was General Obligation Bonds Issued by U.S. Local Governments published in October 2009. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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# Cambridge, Massachusetts

## General Obligation Bonds

### New Issue Report

**Ratings**

**New Issue**

| | |
|---|---|
| General Obligation Bonds Municipal Purpose Loan of 2013 | AAA |

**Outstanding Debt**

| | |
|---|---|
| General Obligation Bonds | AAA |

**Rating Outlook**

Stable

## New Issue Details

**Sale Information:** $65,260,000 General Obligation Bonds, Municipal Purpose Loan of 2013, expected to sell on Feb. 19 via competition.

**Security:** The bonds are general obligations of the city, payable from ad valorem taxes on all taxable property in the city, subject to statutory limitations.

**Purpose:** To support various sewer, school and municipal projects.

**Final Maturity:** Feb. 15, 2033

## Key Rating Drivers

**Exceptional Financial Management:** Management's conservative budgeting practices and prudent use of reserves has helped keep tax levy increases at moderate levels while the city faces growing employee-related costs.

**Above-Average Reserve and Liquidity Levels:** The city's positive financial profile is characterized by large reserves and ample liquidity. Additionally, the city's levy margin continues to grow favorably to the highest level in the city's history.

**Economic Diversity Promotes Stability:** The stable presence of higher education, health care, biotechnology, and life sciences industries supports the well-diversified economy with low unemployment and above-average wealth levels.

**New Development Continues:** Ongoing development within the city is projected to promote growth in assessed valuation (AV), providing the city with tax levy flexibility for operations and debt service.

**Moderate Debt Levels:** Debt levels are moderate and expected to remain manageable, aided by the city's rapid amortization rate.

**Related Research**

Fitch Rates Cambridge, MA's GO Bonds 'AAA'; Outlook Stable (February 2013)

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## Rating History

| Rating | Action | Outlook/ Watch | Oate |
|---|---|---|---|
| AAA | Affirmed | Stable | 2/13/13 |
| AAA | Affirmed | Stable | 3/1/12 |
| AAA | Affirmed | Stable | 2/1/12 |
| AAA | Affirmed | Stable | 2/1/11 |
| AAA | Affirmed | Stable | 1/28/10 |
| AAA | Affirmed | Stable | 3/9/09 |
| AAA | Affirmed | Stable | 1/24/08 |
| AAA | Affirmed | Stable | 3/6/07 |
| AAA | Affirmed | Stable | 1/23/07 |
| AAA | Affirmed | Stable | 1/17/06 |
| AAA | Affirmed | Stable | 4/27/05 |
| AAA | Affirmed | Stable | 1/20/05 |
| AAA | Affirmed | Stable | 1/8/04 |
| AAA | Affirmed | Stable | 1/9/03 |
| AAA | Affirmed | — | 12/3/01 |
| AAA | Affirmed | — | 5/23/00 |
| AAA | Assigned | — | 10/7/99 |

### Related Criteria

U.S. Local Government Tax-Supported Rating Criteria (August 2012)

Tax-Supported Rating Criteria (August 2012)

## Credit Profile

Cambridge is located in Middlesex County across the Charles River from the city of Boston and has a 2011 population of106,038.

## Diversified Economy With Strong Socioeconomic Indicators

The city is an important economic component for the Boston metropolitan area and Massachusetts as a whole and benefits from the presence of both Harvard University and Massachusetts Institute of Technology. These institutions are the city's two top employers with a combined work force of 19,000.

Cambridge continues to experience employment expansion amongst companies in the biotechnology and life and sciences sector. Leading biotech companies, including Novartis, Biogen Idec, Vertex, Pfizer Millenium and Genzyme, employ more than 8,500 Cambridge workers. Several major software and Internet companies have recently established research and development operations in Cambridge including Microsoft, Google, and VMware.

Cambridge continues to be recognized for its high level of venture capital investment which totaled $305 million during the third quarter of 2012, as new ventures are attracted to Cambridge's highly skilled work force, urban setting and proximity to cutting edge companies and research institutions.

The city's well-diversified economy is characterized by a low November 2012 unemployment rate of 3.8% and a high per capita money income figure that equals more than 166% of the national average. AV performance remains positive and up 3.1% in fiscal 2013 from the prior fiscal year. The city is projecting moderate increases in AV in fiscal years 2014 through 2016 based on new construction, appreciation in values of existing property and major rehabilitations, which is considered to be realistic by Fitch.

Numerous economic development projects are underway or in the planning stages and include expansions to existing corporate facilities and new offices or labs. The city's 10 largest taxpayers account for an above-average 20% of the total tax base, but Harvard and MIT together total close to 10% and most commercial property owners own multiple parcels with many different uses and tenants, providing considerable diversification of the city's property tax revenue base.

## Financially Sound City With Strong Reserves

Exceptional financial management and planning are demonstrated by the city's strong financial position. The city continues to strategically use general fund reserves, including debt stabilization funds, to keep tax levies at moderate levels. Reserve levels remain strong. For fiscal 2012, the city experienced a $19.7 million operating surplus (4.4% of spending), after transfers, due to conservative estimates of non-property tax items. Building permits, notably, were higher as a result of new university and bio company projects. Expenses also came in lower than estimated helping avoid the use of reserves, which has typically been the city's experience.

The city ended fiscal 2012 with an unrestricted general fund balance (committed, assigned, and unassigned) of $161 million, equivalent to a strong 36% of spending. The city has historically maintained an unassigned fund balance well in excess of the city's fund balance policy requiring an unassigned general fund balance equal to at least 15% of the ensuing year's budgeted revenues.

Cambridge's $116 million of certified free cash for fiscal 2012 (up from $102 million in fiscal 2010) is the largest amount in the city's history. Fitch also notes that Cambridge's substantial excess levy capacity under Proposition 2 1/2, along with its considerable reserve levels, provides the city with significant financial flexibility. The city's $104 million excess levy capacity totals 21% of the fiscal 2013 operating budget and is up by $2 million from a year prior.

The fiscal 2013 operating budget grew by a manageable 2.9% (compared to 1.8% in fiscal 2012), attributable to an increase in employee salary, health insurance and pension costs. The tax levy is up 6% over the prior year and is being supplemented by the use of $9 million in free cash, the school debt stabilization fund ($0.6 million), $8.5 million from the Health Claims Trust Fund, and $2 million from overlay surplus. Management has indicated that fiscal year to date results are trending slightly better than estimated due to continued new development and increases in building permit and excise tax revenues.

## Financial Summary

($000, Audited Fiscal Years Ended June 30)

| | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|
| Property Tax Revenue | 238,747 | 251,256 | 266,862 | 281,812 | 297,724 |
| Other Tax Revenue | 20,831 | 19,954 | 22,650 | 27,371 | 21,193 |
| Total Tax Revenue | 259,578 | 271,210 | 289,512 | 309,183 | 318,917 |
| Charges for Services | — | — | — | — | 40,579 |
| Intergovernmental Revenue | 47,576 | 37,234 | 32,139 | 31,796 | 31,954 |
| Other Revenue | 76,890 | 67,204 | 68,169 | 75,972 | 52,006 |
| **General Fund Revenue** | **384,044** | **375,648** | **389,820** | **416,951** | **443,456** |
| | | | | | |
| General Government | 32,572 | 31,765 | 40,101 | 35,892 | 35,852 |
| Public Safety | 89,514 | 95,817 | 95,717 | 100,414 | 103,389 |
| Debt Service | 34,124 | 40,169 | 43,215 | 45,247 | 44,562 |
| Other Expenditures | 95,957 | 101,695 | 105,632 | 119,967 | 117,862 |
| **General Fund Expenditures** | **377,598** | **398,477** | **417,317** | **435,598** | **440,941** |
| | | | | | |
| **General Fund Surplus** | **6,345** | **(22,829)** | **(27,497)** | **(18,647)** | **2,515** |
| Transfers In | 16,882 | 17,533 | 18,726 | 18,973 | 19,478 |
| Other Sources | 412 | 793 | 915 | 1,031 | 1,673 |
| Transfers Out | 8,782 | 6,520 | 2,341 | 4,225 | 3,927 |
| **Net Transfers and Other** | **8,512** | **11,806** | **17,300** | **15,779** | **17,225** |
| | | | | | |
| **Net Surplus/(Deficit)** | **14,858** | **(11,023)** | **(10,197)** | **(2,868)** | **19,740** |
| Total Fund Balance | 167,519 | 155,495 | 146,298 | 143,430 | 163,170 |
| As % of Expenditures, Transfers Out, and Other Uses | 43.3 | 38.6 | 34.9 | 32.5 | 36.7 |
| Unreserved Fund Balance[a] | 150,312 | 141,595 | 129,496 | — | — |
| As % of Expenditures, Transfers Out, and Other Uses | 38.9 | 35.0 | 30.9 | — | — |
| Unrestricted Fund Balance[b] | — | — | — | 141,761 | 160,984 |
| As % of Expenditures, Transfers Out, and Other Uses | — | — | — | 32.2 | 36.2 |

[a]Pre-GASB54. [b]Reflects GASB 54 classifications: sum of committed, assigned, and unassigned. Note: Numbers may not add due to rounding.

## Debt Levels are Manageable

Overall debt equals a moderate $4,515 per capita but is lower as a percentage of fiscal 2013 AV at 1.9%. Debt levels should remain manageable given the city's modest overall capital needs and rapid amortization rate; approximately 81% of debt is retired within 10 years. The city plans to issue approximately $225 million of additional debt over the next four years, with approximately 45% to be supported by user fees.

### Debt Statistics

($000)

| | |
|---|---|
| This Issue | 65,260 |
| Outstanding Direct Debt | 340,349 |
| Self-Supporting | (121,000) |
| **Total Net Direct Debt** | **284,609** |
| Overlapping Debt | 194,166 |
| **Total Overall Debt** | **478,776** |
| **Debt Ratios** | |
| Net Direct Debt Per Capita ($)[a] | 2,684 |
| As % of Full Market Value[b] | 1.1 |
| Overall Debt Per Capita ($)[a] | 4,515 |
| As % of Full Market Value[b] | 1.9 |

[a]Population: 106,038 (2011). [b]Full market value: $25,213,973,000 (fiscal 2013). Note: Numbers may not add due to rounding.

## Pensions are Well Funded

The Cambridge Retirement System was 78% funded as of the Jan. 1, 2012 valuation date, a decline from higher levels in prior years. Using Fitch's more conservative 7% return rate, the plan was a more modest 70% funded. The city contributed $30.7 million for fiscal 2012 equal to 100% of its annual required contribution and approximately 6.7% of spending. The city paid $22.5 million in pay-as-you-go other post-employment benefit (OPEB) contributions in fiscal 2012 which accounted for 46% of total OPEB costs. The city's unfunded OPEB liability totaled a high $611 million in fiscal 2012 (2.4% of AV) and city management created an OPEB trust fund in December 2009 with an initial contribution of $2 million and has made annual contributions of $1 million in fiscal 2013 with an expected $2 million annual contribution for fiscal years 2014–2017.

Management recently negotiated new employee contracts with a majority of its bargaining units and has increased the employee contribution amounts for health insurance premiums for both union and non-union employees which should help result in a lower future OPEB liability for the city.

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.